AAHSA

Testimony of
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Representing
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HOUSE FINANCIAL SERVICES SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

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Madam Chairwoman Roukema and members of the Housing and Community Opportunity Subcommittee, I am Tom Slemmer, President of National Church Residences (NCR). NCR is one of the nation's largest not-for-profit sponsors and managers of affordable housing for the elderly, including over 14,000 federally assisted housing units located in 25 states. I am pleased to be here today on behalf of the American Association of Homes and Services for the Aging (AAHSA), where I serve on the Board of Directors and chair the Housing Committee.

AAHSA represents more than 5,600 mission-driven, not-for-profit members, senior housing, nursing homes, continuing care retirement communities, assisted living, and community services organizations. Every day, our members serve more than one million older persons across the country. AAHSA is committed to advancing the vision of healthy, affordable, ethical long-term care for America. Housing is a critical part of the long-term care continuum. Our members own and manage more than 300,000 units of federally assisted and market rate housing, including the largest number of sponsors of Section 202 Supportive Housing for the Elderly.

First, AAHSA would like to commend you, Chairwoman Roukema, and the members of the Committee and staff, for your leadership in introducing H.R. 3995, the Housing Affordability for Americans Act of 2002. We fully support the goals of this bill to reform current housing programs; and believe the bill provides a timely opportunity to impact affordable housing by addressing the issue of growing housing needs.

I am particularly pleased to testify today on this bill, since I had the opportunity to represent AAHSA last summer, as part of a series of hearings that the Committee convened to identify key issues in preparation for drafting the bill. AAHSA is grateful that the bill includes some of our recommendations, including provisions in Title III to address modernization needs of older federally assisted elderly housing. We believe that one of the most critical needs confronting affordable housing in this country is the need to halt and replace the loss of the affordable

housing supply -- what we see as a "silent crisis." AAHSA is particularly concerned with the need to provide housing security for the elderly and for other special need populations.

While AAHSA supports much of the bill, we will focus our comments on those provisions that particularly affect affordable elderly housing with production, preservation, and partnership:

- The critical need to increase the production of affordable elderly housing to meet present and future needs;
- The equally critical need to address preservation of the existing supply of affordable housing, including modernizing and retrofitting older facilities; and
- The need to build effective partnerships to assist with financing development and operations, as well as with the funding and delivery of supportive services to assist frail residents seeking to remain in their present home as they age.

In my testimony I will share some of NCR's experiences with recent efforts to preserve affordable housing, and recommendations developed from these experiences, as well as from the knowledge of AAHSA members about production, preservation, and facilitating services for the elderly.

Need to Increase Production

A recent HUD study reveals that more than 7.4 million households pay more than they can afford for their housing, including 1.4 million elderly people who pay more than 50% of their incomes for housing or live in substandard housing. A majority of these older households are on fixed incomes and receive no housing assistance. While 1.5 million elderly benefit from federally subsidized housing, about the same number of older persons remain within HUD's classification of "worst case" housing needs. Unfortunately, many older persons seeking affordable housing are confronted with multi-year waiting lists. According to a recent AARP study, there are nine older persons on waiting lists for every Section 202 elderly housing unit that becomes available each year.

As the Committee noted in its summary of the bill, "growing numbers of seniors are suffering from worst case housing needs. From 1991 to 1997, the number of senior low-income renters paying more than 50% of income toward rent, rose 8 percent, at the same time, the number of low-income senior households receiving public rental assistance dropped 13 percent. These factors could combine to create a crisis-level lack of affordable housing for senior citizens within the next decade." This situation will become worse as the elderly population doubles by 2030 and the supply of affordable housing shrinks because some owners are converting existing federally assisted units to market rate housing, and other housing is lost due to the lack of funds to modernize. There clearly is a need to increase the production of affordable housing.

Support HOME

AAHSA has been a long-time supporter of HOME as a valuable resource to enable state and local governments to assist non-profit organizations and others to produce and preserve affordable housing. AAHSA supports flexibility with HOME funds to respond to local housing needs. At the present time, a little over one third of HOME funds are used for new construction.

AAHSA supports proposals in the bill to increase the production and preservation of mixed-income rental housing affordable to extremely low-income and very low-income families through the use of HOME grants or loans for acquisition, new construction, reconstruction, or moderate or substantial rehabilitation of affordable housing. AAHSA supports the use of recaptured Section 8 contracts to increase HOME funds for production and preservation. Given the tremendous need to produce and preserve affordable housing, we are pleased that the Committee has also included in these hearings, consideration for other proposals to increase the production of affordable housing, including H.R. 2349, to establish a national affordable housing trust fund.

Support Mixed Financing of HOME with Section 202

Of particular interest to our nonprofit members is the need to increase funding for HOME and other affordable housing programs with increased flexibility for mixed-financing, including the use of HOME with the Section 202 elderly housing program. AAHSA appreciates the Committee's leadership with legislation to reform the Section 202 program to enable mixed-financing, mixed-income, and mixed-use developments, as well as refinancing options. Because of limited Section 202 funds, as well as an interest to develop mixed-income facilities, it was the intent of the recent statutory changes to leverage Section 202 funds targeted to very low-income older persons with other public and private resources, including HOME and Low-Income Housing Tax Credits (LIHTC). Unfortunately, HUD has not yet fully implemented these new reform measures. AAHSA would encourage the Committee to urge HUD to expedite the implementation of these mixed-income provisions, as a means to increase the supply of affordable elderly housing. In addition, AAHSA would recommend that Section 202 funds be used to satisfy subgrantee contributions for HOME funds, in addition to the use of Community Development Block Grants and tax credits, as provided in the bill.

Project-Based Thrifty Production Vouchers

AAHSA members have repeatedly cautioned that vouchers do not work as well for older persons; therefore, we have a reluctance to support vouchers. However, because we support providing a range of housing choices for older consumers, because there is a critical need to address production and preservation needs, and because these are project-based vouchers, AAHSA believes that Thrifty Production Vouchers (TPV) would provide a useful tool. In many regards, these new thrifty production vouchers are similar to Project Rental Assistance Contracts (PRACs) which are linked to the post-1990 Section 202 capital advance program. Similar to PRACs, the rent subsidy is based upon the project-operating budget and rent paid by residents as a percentage of their income. However, a critical difference between these proposed TPVs and PRACs is that PRACs do not have a debt service. It is important that non-profit sponsored elderly housing targeted to very low- and extremely low-income have additional resources to ensure financially sound operations.

We support the use of TPVs targeted to extremely low-income persons so long as TPVs could be combined with any capital subsidy program, including LIHTC, Community Development Block Grants, or HOME. In addition to the use of TPVs with new construction and substantial rehabilitation, AAHSA would recommend that TPVs be modify to enable non-profits to use them with preservation related acquisitions where there is a need to demonstrate a future stream

of rent subsidy for low- and extremely low-income persons. We certainly would welcome TPVs as an additional valuable tool to preserve and improve the supply of affordable housing.

Support Use of HOME Funds for Grandchildren and Older Family Members

AAHSA supports provisions in the bill for expanding the use of HOME funds to address intergenerational needs of families. There is a need for funds to assist low-income families to care for their aging family members by the addition of a room and/or cottage housing adjacent to their home; as well as to enable older persons to care for their grandchildren. This option may be particularly helpful for baby-boomers seeking to respond to dual needs of aging family members and needs of younger children.

Need to Preserve Affordable Housing

One of the most critical needs confronting affordable housing in this country is the need to halt and replace the loss of the affordable housing supply. According to the 2001 State of the Nation's Housing by the Joint Center for Housing Studies of Harvard University, more than a million units of affordable housing have been lost for low-income persons over the past ten years (900,000 between 1993-1995 and 300,000 units between 1997-1999). The National Housing Trust (NHT) estimates that more than 150,000 units of federally assisted housing units have been lost over the past five years. In fact, over the past few years, many more affordable housing units have been lost than have been produced. In addition, NHT estimates between 500,000 and 600,000 federally assisted housing units are at-risk of prepayment and potential loss to market rate. For various reasons, owners are prepaying their federal mortgage, opting out of federally assisted housing and converting affordable housing to market rate.

Some protection has been provided for existing residents, including enacted enhanced vouchers; however, in some regards, enhanced vouchers may have the unintended consequence of masking the extent of recent losses of affordable housing helping to create the "silent crisis". Without enhanced vouchers, the adverse impact of dramatic increases in rent as units are converted to market rate would contribute to an outcry among existing residents. However, with enhanced vouchers affordable housing facility resources are gradually lost, unit-by-unit, as existing residents move out or die. Given the tremendous need for affordable housing, AAHSA believes that as many of these affordable housing units as practical, should be sustained for a long period of time.

In my testimony last summer, I cited a number of situations where NCR developed strong partnerships with local governments to preserve affordable elderly housing. In one situation in California, it took a very proactive role by the city government to use its power of eminent domain to acquire and preserve a 100-unit affordable elderly housing facility. In that situation, there was a public outcry when the for-profit owners sought to exercise their prerogative to evict the older residents. Unfortunately, since last summer, NCR has witnessed many other at-risk affordable housing properties lost to market forces at a fraction of the cost of newly constructed units. We are fearful that virtually all affordable housing building in high rent areas will be lost to lower income seniors. Older Section 236 affordable housings located in good market areas, i.e., located in neighborhoods or communities with tight housing markets or areas undergoing revitalization are at great risk of being lost. Based upon our experience, it is clear that there is a

need for legislation to preserve the existing supply of affordable housing, particularly for low- and moderate-income elderly.

Modernization of Older Elderly Housing

AAHSA appreciates the Committee's actions to address the modernization needs of older elderly housing facilities, including the Section 236-demonstration program established in Title III. As testified earlier, Section 236 non-profit elderly developments appear to be most in need of modernization funds, and have limited access to capital. During a moratorium on the Section 202 program, the only federally assisted program available for non-profit organizations seeking to develop affordable elderly housing between 1969 and 1975 was the Section 236 program. As noted by the Committee, the Section 236 projects have aged considerably since 1973 and are in dire need of capital for modernization. Their lack of access to adequate capital puts them at risk of deteriorating to the extent that they are no longer viable properties.

AAHSA supports the use of these funds for repairs, rehabilitation, and modernization needs, including improvements for health and safety codes and compliance with the Fair Housing Act. AAHSA would recommend, however, that the date for recaptured Assisted Living Conversion Program (ALCP), the source of funding for the demonstration program, be extended from the end of the fiscal year to the end of the calendar year to ensure sufficient time to use ALCP funds for conversions.

We would also urge that the Committee clarify congressional intent with the use of the ALCP for the conversion of housing units to licensed assisted living "or related use." As AAHSA advocated in connection with enactment of ALCP, many affordable housing facilities need to be retrofitted to accommodate increased levels of services for frail elderly, but some elderly housing sponsors do not want to become a licensed assisted living facility. Unfortunately, many of these older facilities do not have adequate reserves or cannot access capital funds for improvements without a grant. It was the intent when enacted that these ALCP funds would be used for conversion to assisted living **or** for "related use", such as modernization/retrofitting needs. Unfortunately, HUD has not implemented this "or related use" provision. This demonstration program proposed in the bill will focus on the unused ALCP funds for the older non-profit sponsored Section 236 elderly housing facilities. We would also recommend, if sufficient ALCP funds are not available, that facilities participating in the demonstration program also be eligible for recaptured Interest Reduction Payments (IRP) and other available funds.

In addition to provisions in the bill to assist non-profit sponsored Section 236 elderly housing facilities, AAHSA appreciates actions being taken by committee members to urge HUD and the Administration to release over $300 million of recaptured Section 531, Interest Reduction Payments for modernization needs. These funds were IRP subsidies from Section 236 insured multifamily properties recaptured for the purpose of providing rehabilitation grants or loans to qualified owners who demonstrate need and have insufficient project income to support rehabilitation. While HUD indicated earlier its intent to issue rules to allocate these funds, to date, HUD has not yet allocated any of these IRP funds. About a quarter of the eligible Section 236 properties have elderly-headed households.

In addition to concerns for non-profit sponsored Section 236 elderly housing projects, we also have concerns for older Section 202s and those developed during "cost-containment" constraints

in the mid-late 1980's when there were severely limited common space and amenities, over-reliance on efficiencies, and inadequate structural design. A recent AARP study found that 20% of the oldest Section 202 facilities reported that their capital reserves are inadequate to meet current repair needs and that 36% reported that reserves are inadequate to meet projected repair needs. AAHSA would urge that the Committee require the use of recaptured IRP funds for modernization needs of federally assisted nonprofit sponsored elderly housing.

Loss of Section 202 Elderly Housing

One of the more disturbing situations that has occurred since my testimony last summer, is the possibly unprecedented loss of Section 202 elderly housing facilities. In addition to concerns with the loss of these critically needed affordable elderly housing units, it is very important to recognize the negative economic impact of these loses. It costs over twice as much to replace these affordable housing units as it does to preserve them. As forewarned in my testimony last summer, a Section 202 elderly housing facility located in Detroit was foreclosed by HUD and sold to for-profit owners and converted to market rate housing. We assumed that the Michigan situation was unique; however a few weeks ago another Section 202 elderly housing facility located in rural New York was foreclosed and sold to a for-profit owner for market rate housing. NCR had been contacted by the local community in New York to acquire the Section 202 property to preserve it for affordable elderly housing. However, despite our interest, organizational capacity, and local support, NCR was not able to acquire the property at a price that would have allowed it to remain affordable to low income seniors. It is clearly shortsighted and not very cost-effective to use public funds that were invested into these affordable housing facilities and then, despite need, to sell these facilities at significant discount to for-profit owners to convert them to market rate housing. Non-profit affordable housing advocates simply cannot move fast enough to compete with market forces without more effective tools and a proactive HUD office. In recent years, local communities lost more affordable elderly housing units through opt outs and conversions than the state's entire Section 202 allocation to construct new units.

AAHSA supports various tools to assist in preserving at-risk affordable housing stock for the increasing numbers of older persons. For Section 202 elderly housing facilities, AAHSA strongly urges the prompt enactment of language to give a non-profit organization, the right of first refusal to purchase a Section 202 facility. In addition, AAHSA would urge that actions be taken to identify at-risk Section 202 and other affordable elderly housing properties, provide technical assistance to present and potential owners, and develop a means to provide quick access to capital to facilitate the transfer of ownership.

Extensions for Expiring Rent Supplements

AAHSA would also recommend that the Committee take action to address concerns that some of our members have with their expiring rent supplement contracts. At the present time, HUD will not renew these contracts because the program is no longer operational. Therefore, AAHSA would recommend that the Committee urge HUD to conduct a study of expiring rent supplement contracts and make recommendations to the Committee with actions that are necessary to preserve these properties. We have particular concerns with preservation of these affordable housing units and protection for older residents.

Activate Section 221 (d)(3)

AAHSA is concerned that one of the most effective tools in preserving affordable housing is no longer available -- the Section 221(d)(3) FHA insurance program. Due to problems in the program unrelated to affordable housing production, this program is no longer widely available. GAO recently reported that some of the organizations that received Section 221 (d)(3) were not legitimate not-for-profits; and therefore, should have used the Section 221(d)(4) which provides lower subsidy rates for for-profits. AAHSA recommends that the Section 221(d)(3) be reformed to be available only to legitimate not-for-profits that are preserving or producing affordable senior housing in perpetuity.

Establish HUD Office of Preservation

Because of the urgency, complexities of funding, and multitude of issues to preserve the existing supply of affordable housing before they are lost forever, AAHSA urges that HUD establish an Office of Preservation. The establishment of this office would serve as a focal point within the federal government to provide national leadership, including a partnership with HUD local offices, national organizations, and others, to develop and administer a comprehensive strategy to preserve the nation's supply of affordable housing. The Preservation Office should have the resources and authority to take quick actions to assist non-profits, state and local governments, consumers, financial community, and others with resources and technical assistance to preserve affordable housing. The office would also serve as a wake-up call to the silent crisis that is rapidly eroding the existing supply of affordable housing.

The scope of the responsibilities of the Preservation Office would be broader than the Office of Multifamily Housing Assistance Restructuring (OMHAR). Among suggested actions that the office could take include: technical assistance to non-profits and others on preservation needs; facilitate transfer of ownership, i.e., opt-outs with opt-ins; a database of potential at-risk properties; assist states and local governments to develop preservation programs in their state (such as the bi-partisan matching state program provided in H.R. 425/S.1365) funds (grants or loans) that could be quickly accessed by non-profits to acquire at-risk affordable elderly housing; and provide incentives for existing owners to transfer ownership to a non-profit committed to sustain affordability. The Office could also identify best practices and develop demonstration programs. Finally, while beyond the jurisdiction of this committee, AAHSA would urge the Committee to collaborate with the Ways and Means Committee to remove tax disincentives and/or provide incentives to transfer ownership to non-profit organizations to sustain long-term affordability.

Partnerships Needed for Elderly Housing

Given the present federal budget situation, as well as the goals and needs of affordable elderly housing, it is especially necessary that multiple funding sources be used to develop, operate and/or preserve affordable elderly housing. While this bill recognizes the need for many financial partners, including state and local governments (HOME, CDBG, trust funds, etc) and state and local finance agencies (LIHTC, bonds, etc), there are many other important public and private partners needed to support affordable elderly housing, particularly with funding or providing supportive services. Our non-profit members are quite experienced and successful with establishing effective public and private partners in their local communities.

Role for Faith-Based with Affordable Housing

AAHSA is pleased that H.R. 3995 recognizes the important contribution and partnership that the faith-based community can have with affordable housing and community development. All of AAHSA members are non-profits and more than three-fourth of the parent organizations are faith-based, representing most denominations. AAHSA supports language in the bill to remove barriers to participation by faith-based organizations in federal housing and community development programs, including Section 202s, Section 8s and CDGB; and without providing any preferential treatment for faith-based organizations. Our members uniformly believe that the current system of grants and contracts under the Section 202 programs generally work well and should maintain impartiality among sponsors of various faiths and between faith-based and non-sectarian, community-based non-profit organizations. Our members agree that faith-based organizations must be non-sectarian in their activities and must meet all the appropriate obligations placed on any recipients of federal funds. We believe that the present system of creating separate 501(c)(3) is necessary.

However, we would recommend technical assistance grants to assist with development or preservation be provided to less experienced or smaller organizations, including faith-based organizations. The level of expertise and capacity necessary for some of these federal programs may prevent participation by some faith- or community-based organizations in federally assisted elderly housing. There is a general consensus that the paperwork requirements to apply for funds can be burdensome; but these bureaucratic problems affect all applicants and recipients.

Need for Supportive Services

In addition to affordability, one of the most significant needs for elderly housing is the access to community-based formal and informal supportive services. AAHSA believes that the mission, expertise, and experiences of many faith-based organizations with social services can be very helpful in providing supportive services with elderly housing. Access to supportive services is particularly important for federally assisted elderly housing since the average age of residents is approaching 80 and most residents are older women living alone on fixed-incomes of less than $10,000 annually. Many of these older residents have aged since moving into the "independent" housing facility and prefer to remain in their present home as long as possible; yet many are at-risk of leaving should they not have access to necessary supportive services. Since HUD primarily focuses on the development and operations of housing and community development, it is essential that effective partnerships be developed with other public and private agencies involved with services and health care, particularly the Department of Health and Human Services (HHS). To this end, we developed a paper on possible collaboration between HHS and HUD which I have attached for your information.

AAHSA has long advocated for an affordable "continuum of care" for older persons (a term we are pleased has also been adapted to provide a range of services and needs for the homeless).
AAHSA is very grateful for the leadership that this committee has taken over the past few years to address supportive services needs of older residents, as well as for persons with disabilities and other special populations. We support many of the provisions in the bill to address supportive services and health care needs of special populations, including provisions in Title II

to update FHA healthcare mortgage insurance program by redefining "integrated service facilities," enabling them to be developed with hospitals, and to be refinanced.

Support Service Coordinators

AAHSA supports the provisions in the bill to fund service coordinators in Section 811 housing for persons with disabilities. AAHSA firmly believes that service coordinators are key to linking older and/or disabled residents with community-based supportive services. The role of service coordinators will become even more important as states and local communities recognize the emerging role of elderly housing in long-term care strategies, as well as the potential cost-benefits of enabling frail elderly to avoid unnecessary or premature higher cost level of care. They are also very importance in states and local efforts to respond to the Supreme Court *Olmstead* decision, as required by the President's New Freedom Initiative, to increase community-based living options for persons with disabilities, including older persons.

AAHSA has long advocated that there be well-trained service coordinators for elderly housing (as well as for other special populations) to facilitate access to community-based services. While we support grants to enable the staffing of service coordinators, we also urge that rent subsidies be increased to sufficient level to incorporate within the facility's operating budget the staffing of service coordinators. However, we recognize that in some cases, grants are essential, particularly in the initial staffing of coordinators into the facility's budget, and the staffing of coordinators in partially subsidized facilities. AAHSA would urge that the Committee take actions to ensure that Section 202s with a PRAC, as well as Section 811s, and non-profit organizations sponsoring or managing affordable elderly housing facilities financed through Low-Income Housing Tax Credits, are able to apply for service coordinator grants.

Study on Insurance of Federally Subsidized Elderly Housing

Another critical issue that has become a major concern this year, is the costs of Property, Casualty and Liability Insurance for HUD assisted elderly housing facilities throughout the country that has increased dramatically over the past 18 months. Our members have reported an increase in premiums from 100% to 400% -- far outpacing inflation rates—and well beyond any rent adjustment levels allowed through HUD's current regulations (Operating Cost Adjustment Factors, budget based rent increases, etc.). In addition, since this insurance is required, these dramatically increased rates are passed along to HUD; i.e., the federal government is subsidizing the insurance companies. One suggested remedy would be to establish a self-insurance program for HUD assisted facilities. Attached is a brief fact sheet outlining the proposal. AAHSA would urge that the Committee require HUD to conduct a study of the insurance situation with HUD assisted elderly housing, including potential for self-insurance and other recommendations. Because of the urgency of this situation, we would urge that the report be done as soon as possible to enable potential actions to be taken by this Congress.

Closing

AAHSA appreciates this opportunity to participate in these hearings to share some of our thoughts on H.R. 3995, the Housing Affordability for Americans Act of 2002; and we are grateful for the leadership of the Committee in addressing critical housing needs in our country. While we can anticipate thoughtful recommendations for national housing policy changes

resulting from the research and deliberations of the Millennial and the Seniors Commissions, many older Americans cannot afford to await their final reports and the potentially lengthy review and implementation process. As the Chairwoman stated at the hearings on elderly housing last summer, "Our seniors deserve to partake in the American Dream – decent affordable housing for all." "There is no doubt that we must do more to increase new production and to preserve our existing elderly housing stock, but the solution to this fundamental goal will not be easy and it deserves our deliberate consideration." Therefore, we are grateful for the leadership of the Committee with advancing necessary legislative changes as outlined in this important bill; and would urge your consideration for the recommendations in my testimony. We look forward to working with the Committee and your capable staff to advance this bill. Please direct questions on this testimony to Larry McNickle of AAHSA staff (lmcnick@aahsa.org; 202-508-9447). Thank you.

Attachments

Proposal to Implement a Self-Insurance Fund for HUD-Assisted Elderly Housing Facilities

The costs of Property, Casualty and Liability insurance for HUD assisted elderly housing facilities throughout the country have increased dramatically over the past 18 months – far outpacing inflation rates - and well beyond any rent adjustment levels allowed through HUD's current regulations (Operating Cost Adjustment Factors, budget based rent increases, etc.)

Surveys of nonprofit owners have revealed increases in premiums ranging from 100% to 400%. Many insurance carriers have elected not to renew policies for facilities that they have insured for years. Our survey results also demonstrate that there is no direct correlation between increased premiums and negative claims history. In fact, many properties that have never had a claim have seen their premiums skyrocket.

Insurance industry representatives' report that increased rates are the result of outside market forces (losses incurred after September 11, 2001 and weaker returns on stock market investments, in particular.)

Although the increased costs represent a significant problem in their own right for nonprofit owners with already tight operating budgets, several other factors are also combining to make insurance a particularly problematic issue:

- **Exodus of Insurance Carriers:** Many insurance carriers have elected to exit the affordable elderly housing market and owners have received notices of non-renewal – regardless of their claims history. This exodus places owners in the difficult position of having to "shop" for insurance with carriers who are totally unfamiliar with their operation. These new carriers write policies that adjust for an unknown risk level (which means higher than normal rates.)
- **Fewer Choices for Property Owners:** As the number of insurance carriers decreases, owners have fewer choices and are forced to accept higher premiums than they can afford.
- **Unbundling of Policies/Less Coverage:** Many of the carriers that are writing policies for HUD facilities have scaled back the coverage they will offer, so owners are paying more for less. Many policies are being "unbundled" – forcing owners to buy separate policies for such things as boiler insurance, wind, toxic mold, employee liability and other types of coverage that have traditionally been included in one blanket policy.
- **Increased Deductibles:** Insurance companies are offering owners the option of keeping their premiums lower by accepting higher per claim deductibles. In many instances, policies are subject to deductibles that exceed the cost of the average property/casualty claim. Consequently, if a claim is filed, the property will most likely have to pay the claim out of pocket.

Adequate insurance is not optional for HUD assisted facilities; it is required by HUD regulations. Therefore, HUD assisted facilities have no choice but to purchase comprehensive insurance coverage at the available market rate.

HUD project budgets are lean by design. There is very little room for dramatic increases in operating costs. At the same time, current HUD regulations do not allow owners to raise tenant rents sufficiently to keep pace with the rate of increases. As a result, owners are placed in an untenable situation. Even if a project can fund the current year's increases, it is highly unlikely that they will be able to find that money again in subsequent years.

Insurance industry forecasts indicate that insurance costs will continue to escalate over the next few years – and it is unlikely that costs will ever return to pre-2001 levels.

As HUD assisted properties allocate an increasingly higher percentage of their operating budgets for insurance premiums and insurance claims that don't meet their deductibles, there is less money available for more essential operational expenses such as facility maintenance, services for residents, employee salaries and benefits and renovation and repairs of older projects.

More importantly, as this money goes out of the HUD assisted facilities to pay insurance premiums, HUD is in effect diverting precious taxpayer dollars from the core purposes of HUD's programs into the bank accounts of commercial insurance companies.

In an effort to stop the cycle of HUD subsidization of insurance companies, AAHSA proposes that Congress direct HUD to explore the implementation of a self-insurance program for HUD assisted facilities. This program would be financed through premiums paid by HUD assisted facilities and managed by a private third party administrator selected by HUD through a Request for Proposal process.

Such a program would not require any additional funding, as it would be paid for with the premiums paid into it by participating facilities. The third party administrator selected to run the insurance program would receive a percentage of premium dollars paid into the fund. The premiums paid into the self-insurance fund would be placed in interest bearing accounts and any surpluses generated would be used to keep premium costs for facilities low.

Through this program, HUD would be able to "manage" insurance costs for the facilities in its portfolio – allowing owners to keep rents at affordable levels and still offer a high quality living environment for their residents.

Due to the urgent nature of this problem, we recommend that Congress direct HUD to report back to Congress on the feasibility of this proposal no later than August 1, 2002.

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HUD-HHS Collaboration to Address the Needs of Frail Elderly Residing in Elderly Housing

Introduction

When it comes to long-term care, today's consumers are loud and clear on one point: They want to stay in their own homes as long as possible and receive services and support there. A fortunate few have the means, ability and health to make this possible. For the vast majority of Americans, however, their need for at-home services will outstrip their ability to pay for them.

Moderate or low-income persons who are fortunate enough to live in federally assisted housing want to remain in these homes as long as possible, as well. Respecting this wish, some elderly housing facilities have increased their level of supportive services, added service coordinators and even converted housing units into affordable assisted living.

Where service options aren't available, however, frail and vulnerable elderly often end up in nursing homes prematurely. A 1999 AARP housing survey found that 52.4% of transfers from elderly housing were due to the need for more services, including nursing home care. Unfortunately, this is not necessarily indicative of an individual's inability to live at home with support, but rather the system's inability to accommodate the person in the least restrictive setting. The cause is often a complex web of multiple funding sources and administrative systems, conflicting eligibility requirements and regulations and lack of effective coordination between the departments of Housing and Urban Development (HUD) and Health and Human Services (HHS).

Senior housing can and should be a cost-effective component of long-term care. There are 1.5 million units of senior housing in public and private facilities. While the minimum age for senior housing is 62, currently the average age of Section 202 residents is over 80. Given the GAO's finding that 58% of people over 80 have a severe disability, it can be assumed that more than half of residents in federally subsidized senior housing need some type of services and support. Moreover, it's estimated that about a fourth of older residents are "at risk" of moving to a higher level of care.

Certainly, housing residents may reach levels of disability that require nursing care, and good nursing homes always will be needed. But AAHSA believes many frail residents in federally assisted housing can avoid premature placement in nursing homes if a full range of services and supports is available.

Consumer preference and economic realities support the model of senior housing with services to enable older persons to remain in their homes and communities. In addition, the mandates of *Olmstead v. L.C*, 119 S.Ct. 2176 (1999)—which require the placement of individuals with disabilities in the

least restrictive setting—argue forcefully for state and federal governments to provide more housing, as well as more housing with services. The lack of affordable, accessible housing—specifically housing with services—has been cited by many groups as one of the greatest barriers to transitioning people to the community.

With a rapidly aging population and the current economic downturn, there is a great opportunity for HUD and HHS to collaborate to meet the current and future needs of frail and "at risk" elderly residing in federally assisted housing. Before this can happen, however, HUD and HHS must work together to undertake three fundamental tasks:

1) Develop a better base of information on the population of elderly residents in federally assisted public housing. This should include their needs for home and community-based services, as well as services already received and their satisfaction with and the effectiveness of these services.
2) Identify appropriate services and develop service delivery and funding mechanisms to ensure that residents can access needed home and community-based services.
3) Develop effective information and outreach programs to ensure that residents are aware of and, to the extent possible, take advantage of services and supports.

Develop a Better Base of Information

An adequate base of information is essential to developing an effective program of services and support. HUD, HHS, the Administration on Aging (AoA), public and private agencies, consumer organizations and state and local entities (e.g., county governments, area agencies on aging, community planning agencies and public housing authorities) all collect demographic data and information about the supply of and demand for services. Yet these databases are done in isolation, are not shared and are frequently incompatible. Federal agencies that provide funds for shelter, meals, services and health care have little ability to monitor HHS or AoA resources used by residents in HUD assisted housing. State and local programs are often part of the mix of resources used by residents, as well. And little information is available on resident satisfaction with or the effectiveness of services received, particularly in public housing settings.

HUD and HHS need to collaborate to:

- Review available demographic data on the need/demand for services by comparable populations and develop assumptions on overall service and support needs for residents in federal housing.
- Develop and implement a survey to measure resident/family/caregiver satisfaction with and the adequacy of home and community-based services and supports.
- Undertake a demonstration project to identify residents' use and the effect of Medicaid and other services and supports. Specific areas of study should include services most frequently used, how services were/are obtained, gaps in services, effectiveness of services/supports in maintaining residents in their homes and differences between early versus later intervention on health status, quality of life and institutionalization rates.

Identify Appropriate Services and Develop Service Delivery Mechanisms

There are several problems to overcome in securing services and supports for residents of federally assisted housing. These include identifying service needs and availability, identifying barriers to service delivery, increasing access to services and creating systems that facilitate effective service delivery.

In most urban and suburban communities, there is a wide range of services available (although these may be limited by the current shortage of direct-service long-term care personnel). Access to services may be limited by residents' lack of information about them or their eligibility requirements, or by practical limitations such as inadequate or inaccessible transportation. In rural areas, these problems often are complicated by the lack of a full range of services.

The complexities of service systems create potential barriers for older and frail residents who need a range of services coming from more than one agency. These include different eligibility requirements among programs; exclusions for some services based on eligibility for, or use of, another agency's services; limited service slots; rules and regulations that decrease flexibility, such as four-hour minimums for homemaker/home care workers in some programs; and waiver program eligibility requirements that preclude early intervention.

The proximity of services to older and frail residents can make a difference in access and utilization, as well. Co-location of services and supports, such as adult day centers and home health providers, is one strategy to enhance access and service delivery. Rather than providing or contracting for supportive services, the housing sponsor makes space available in and/or adjacent to the facility for various service providers.

Another way to accommodate frail older residents is to convert some housing units into affordable assisted living. However, providers and grantees often need information and/or assistance to make this possible. The need most often reported by grantees is help in securing the required service package. It should be kept in mind, however, that as we convert federally subsidized units into assisted living, we should simultaneously increase the number of non-assisted living units to continue to meet the needs of the more than 6.8 million elderly households in need of affordable housing.

To facilitate the delivery of services, HUD and HHS need to collaborate to:

- Ensure that every senior housing development has a service coordinator or case manager, preferably on site. This can be accomplished by increasing the program through HUD or adding HHS funded case managers (e.g., through targeted case management). Service coordinators and/or case managers also should be available to older residents residing in other federally assisted housing.
- Remove eligibility barriers and program guidelines that limit or prohibit needed and timely service delivery in senior housing. These efforts should include:
    - ✦ Encouraging the use of more flexible Medicaid spend-down formulas to increase the number of Medicaid-eligible housing residents.

- ✦ Creating a new waiver program tailored to the personal care and homemaker needs of housing residents who are Medicaid beneficiaries but don't meet nursing home eligibility requirements. This is particularly important in states that don't provide a Medicaid personal care option.
- ✦ Creating more flexible rules regarding the use of homemaker/home care staff for services to housing residents.

- Collect information on promising practices in coordination between agencies responsible for overseeing home and community-based services and housing agencies and/or funding coordination to develop replicable models of collaboration.
- Encourage activities such as physically linking or co-locating health and home and community-based support services to senior housing. For example, HUD could encourage the use of Community Development Block Grant funds to develop a community center co-located or adjacent to a Section 202 housing facility as a means to facilitate resident access to services.
- Encourage the development of affordable assisted living and increase utilization of HUD's Assisted Living Conversion Program through:
  - ✦ Facilitating conversion of existing elderly housing units by providing a funding source for services, such as a set-aside in Older Americans Act (OAA) funds or ensuring the availability of waiver services/funds (HHS) and affordable rent (rent subsidy over time) (HUD). Converting "independent" housing to "supported elderly housing" and/or assisted living is a lower-cost alternative to current, often expensive market-rate assisted living and minimizes the need for residents to move for more intensive services.
  - ✦ Collaborating on strategies to enable nonprofit organizations to acquire existing but unsuccessful (or unprofitable) high-end assisted living facilities to make them affordable to moderate and low-income individuals. Strategies should include tax relief for proprietary developers and owners who want to sell their projects but cannot afford the present capital gains tax. "Exit tax relief" could encourage the sale of these facilities to nonprofits, which could make the units available to the less affluent.
- Utilize technology to promote better and more service in rural areas and for education and assistance to older residents. This can be accomplished by:
  - ✦ Employing telemedicine to provide technical assistance to health care workers over significant distances, which can avoid uncomfortable and expensive transportation of elderly residents. Telemedicine also can be used in rural nursing homes, so they can facilitate care to their own residents and provide clinical consultation to residents in senior housing. Presently, telemedicine is not approved for use in nursing homes. This type of support also might entice more physicians into rural areas.
  - ✦ Investigating ways to provide technology to residents. The use of computers and other technology can provide information and education a resident may not seek from others or serve as a supplement to certain kinds of human contact and help keep them independent longer.

Develop Effective Education and Outreach Programs

Education and outreach to residents of housing programs is essential. Many residents are eligible for Medicaid but are either unaware or don't know how to apply for it. The variety of programs and complexities of the health and service system can be confusing and cause residents to delay or not seek needed services. Helping residents understand and access services is most successful when the information and assistance is available through someone, such as a service coordinator, with whom they have an established relationship. Specific types of collaborative education and outreach strategies are:

- Ensuring that all residents are given the option to be assessed for health and service needs on a regular basis. This is facilitated by having a well-trained service coordinator or case manager on site to do the assessment and then follow up on service delivery if needed.
- Developing a model protocol(s) for education/training of residents, caregivers and housing management on Medicaid long-term care service and support programs, how to identify eligible residents and how to use a referral process to ensure a prompt response from Medicaid agencies. Protocols should also be developed for other long-term care service programs, such as OAA and Social Service Block Grant programs. The model protocol(s) could be tested in a few states and localities.
- Disseminating information to residents on health and aging, as well as on programs and services available in the community. This should be done individually and through mechanisms such as health fairs held at the housing facility where providers and agency representatives meet with residents.

Interagency Taskforce

AAHSA believes HHS and HUD should establish an interagency taskforce to examine these recommendations. The taskforce should include key agencies involved with housing, supportive services and health care. HHS representatives should come from the AoA, Assistant Secretary for Planning and Evaluation and Centers for Medicare and Medicaid Services. HUD representatives should come from the Office of Multifamily Housing, Office of Indian and Public Housing and Office of Policy Development and Research. The USDA's Rural Housing Services also should be represented. In addition, the interagency taskforce should include technical experts from public and private organizations or agencies that represent state and local governments, nonprofit housing and service providers, academic and research institutions, providers and consumers.

This suggested list of actions for a HUD-HHS taskforce is merely an initial framework for interagency collaboration to improve housing, services and health care for the increasing number of older Americans. While these recommendations are primarily directed to older residents residing (or seeking to reside) in federally assisted elderly housing, many could assist the elderly in public housing, as well as those residing in the surrounding neighborhood.

In addition to responding to the overwhelming preferences of older consumers (and their caregivers) to stay independent in their homes as long as possible, these recommenda-

tions represent cost-effective policy shifts in how services are made available. As reported in a recently published study by Harvard University's Joint Center for Housing Studies, *Aging in Place: Coordinating Housing and Health Care Provision for American's Growing Elderly Population* (October 2001): "There are a significant number of expensive inefficiencies associated with this separation of health and housing services. As with most issues, the prevention of a problem is the most cost-effective form of treatment."

AAHSA looks forward to working with HHS, HUD and others to seek creative solutions to this critical need.